

ARVON TOWNSHIP SCHOOL DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2007

ARVON TOWNSHIP SCHOOL DISTRICT

JUNE 30, 2007

ADMINISTRATION

Superintendent	Dennis Harbour
Principal	Jennifer Lynn

BOARD OF EDUCATION

President	Harold Ripple
Vice President	Mary Rogala
Treasurer	Myla Horrocks
Secretary	Susan Bollech
Trustee	Rose Ollila

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Bruce A Rukkila, CPA, PC



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INDEPENDENT AUDITOR'S REPORT

Board of Education
Arvon Township School District
Skanee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of and for the year then ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Arvon Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 15, 2007 on our consideration of Arvon Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion analysis and budgetary comparison information on pages 8 through 13 and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Arvon Township School District's basic financial statements. The additional information on pages 30 to 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukhila, CPA, PC

Certified Public Accountants

August 15, 2007



Bruce A Rukkila, CPA, PC



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Arvon Township School District
Skanee, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of and for the year then ended June 30, 2007, which collectively comprise Arvon Township School District's basic financial statements and have issued our report thereon dated August 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arvon Township School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Arvon Township School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arvon Township School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Arvon Township School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Arvon Township School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Arvon Township School District's financial statements is more than inconsequential and will not be prevented or detected by Arvon Township School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Arvon Township School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school district's board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 15, 2007

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2007**

This section of Arvon Township School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-Wide Financial Statements and Fund Financial Statements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The Government-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund-the General Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole - Government-Wide Financial Statements:

The government-wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets of the District are reported in the Statement of Net Assets of the Government-Wide Financial Statements.

Reporting the School District's Most Significant Funds - Fund Financial Statements:

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including the School Service Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition.

Arvon Township School District
Management's Discussion and Analysis
June 30, 2007

Summary of Net Assets in Governmental Activities

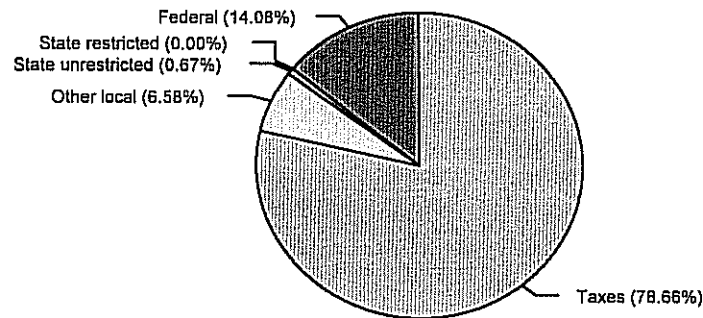
	2007	2006
Assets		
Current and other assets	\$ 399,163	\$ 365,365
Capital assets - Net of accumulated depreciation	160,959	161,564
Total Assets	\$ 560,122	\$ 526,929
Liabilities		
Current liabilities	\$ 14,705	\$ 11,212
Total Liabilities	14,705	11,212
Net Assets		
Invested in property and equipment - net of related debt	160,959	161,564
Unrestricted	384,458	354,153
Total net assets	545,417	515,717
Total Liabilities and Net Assets	\$ 560,122	\$ 526,929

Results of Operations in Governmental Activities

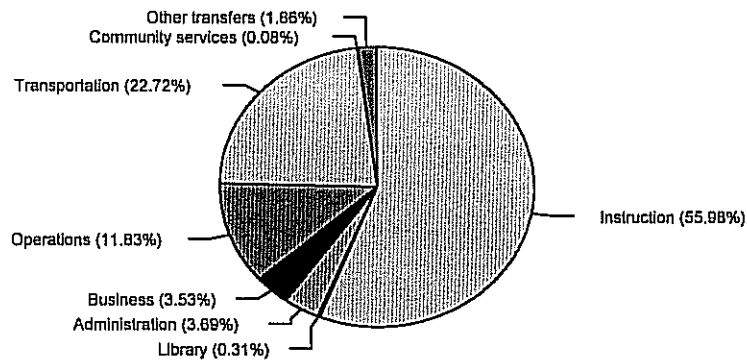
	2007	2006
<u>Revenues</u>		
Program Revenue:		
Charges for services	\$ 2,002	\$ 1,346
Grants and contributions	54,342	41,273
General Revenue:		
Property taxes	279,396	276,777
State aid	2,384	
Transfers	204	(260)
Other	23,373	23,477
Total Revenue	361,701	342,613
<u>Functions/Program Expenses</u>		
Instruction	187,499	176,455
Support services	131,234	111,308
Community service	259	
School services	13,009	10,040
Total Expenses	332,001	297,803
Change in Net Assets	29,700	44,810
Net Assets - Beginning	515,717	470,907
Net Assets - Ending	\$ 545,417	\$ 515,717

The following charts highlight the District's General Fund activities:

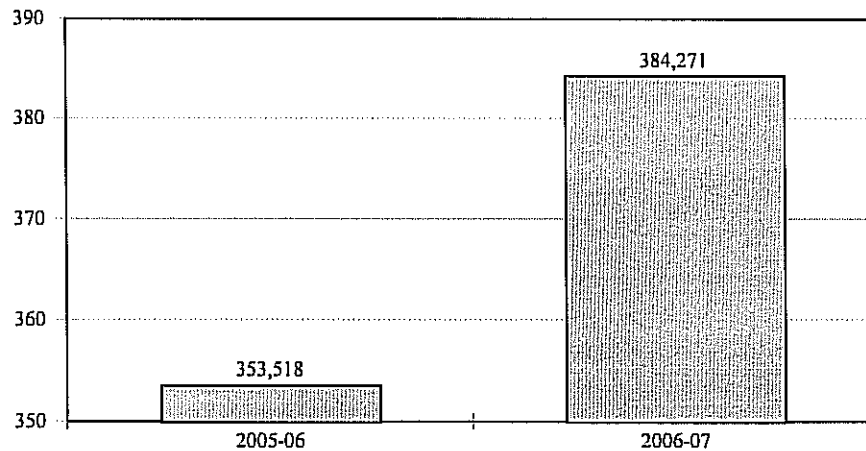
2006-07 Revenues



2006-07 Expenditures



Fund Balance Comparison



**Arvon Township School District
Management's Discussion and Analysis
June 30, 2007**

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of the change in fund balance of the governmental funds is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 355,178	\$ 338,510	\$ 16,668
Expenditures/Transfers	\$ 324,425	\$ 319,059	\$ 5,366
Fund Balance	\$ 384,271	\$ 353,518	\$ 30,753
School Service Fund:			
Revenues/Transfers	\$ 12,561	\$ 10,074	\$ 2,487
Expenditures/Transfers	\$ 13,009	\$ 10,040	\$ 2,969
Fund Balance	\$ 187	\$ 635	\$ (448)

General Fund - During the fiscal year 2006-2007, Arvon Township School District received and disbursed Title I allocations of \$6,378 to Elm River and Grant School Districts (two small districts within our ISD) as part of a consortium within the consolidated application. Arvon Township School District's Title I allocation increased by \$3,146 and the REAP request increased by \$1,309. The District also received additional amounts of \$543 from Medicaid Outreach and a \$2,384 credit from the Retirement Service. Expenses increased by \$5,366 from previous year due mainly to bus radios that were purchased.

School Service Fund - The increase in revenues and expenses from prior year is due to an increased amount of purchased commodities. Transfers from the General Fund to the School Service Fund remained about the same.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2007, the original budget was adopted on June 27, 2006. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with final budget</u>	<u>% Variance</u>
Revenues	\$ 345,852	\$ 352,721	\$ 355,178	\$ 2,457	0.7%
Expenditures					
Instruction	\$ 183,250	\$ 178,190	\$ 178,003	\$ 187	0.1%
Supporting services	134,493	140,867	140,125	742	0.5%
Community services	0	300	259	41	15.8%
Total expenditures	\$ 317,743	\$ 319,357	\$ 318,387	\$ 970	0.3%
Other financing sources (uses)	\$ (5,906)	\$ (6,038)	\$ (6,038)	\$ 0	0.0%

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2007**

General Fund Budgetary Highlights (Continued)

Revenues increased from original budget to the amended budget because Arvon Township School District did not initially know the exact amount of the Title and REAP allocations.

Instruction expenditures decreased from the original budget to the amended budget because of contract finalizations and the establishment of employee benefits. Community Service expenses actual amount was less than the final budget because the community picnic cost \$41 less than anticipated.

Analysis of Financial Position

During the fiscal year ended June 30, 2007, the District's net assets increased by \$9,539 for bus radios, camera equipment, and a payment on the construction of a new shed. There were no disposals or sale of assets during the year.

The following is a summary of capital assets:

	Balance 06/30/06	Additions	Deletions	Balance 06/30/07
Land	\$ 1	\$ 0	\$ 0	\$ 1
Building and additions	3,775	3,389	0	7,164
Improvements other than building	146,393	0	0	146,393
Equipment and furniture	36,492	6,150	0	42,642
Total	<u>\$ 186,661</u>	<u>\$ 9,539</u>	<u>\$ 0</u>	<u>\$ 196,200</u>

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

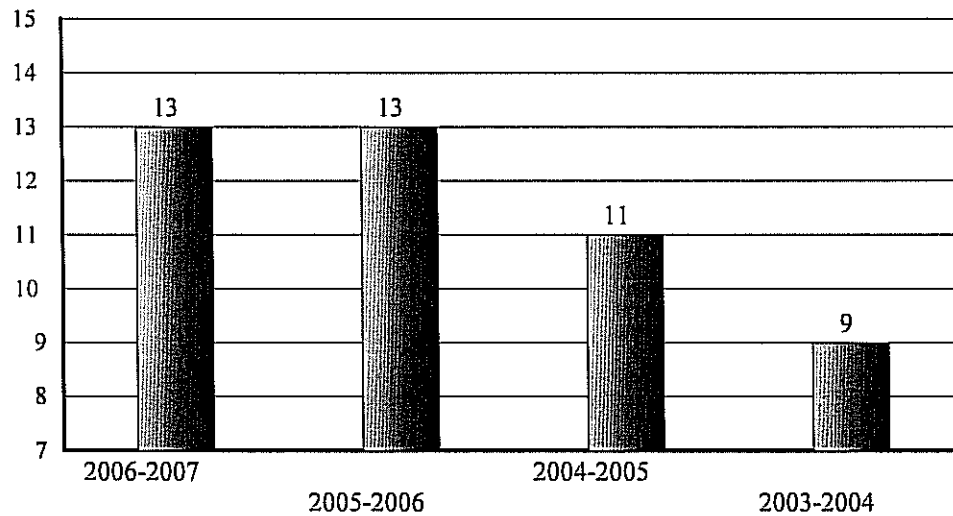
Arvon Township School District levies 13 mills of local property taxes out of the 18 mills of non-homestead property taxes allowed. In 2006-2007, the amount levied for the school district was \$279,396. The district does not receive any state aid and therefore does not operate dependent upon the state foundation allowance.

The school serves 13 students in grades K-6. Middle and high school students are transported to L'Anse or Baraga Schools, the board charges a transportation fee per student to each school district.

Arvon Township School received \$54,286 in federal grants awarded on an annual basis. These grants include Title I, Title V, Title II, REAP, National Lunch Program, and USDA Commodities.

The following graph depicts 0% increase or decrease in the number of students enrolled from the previous year, using the State Aid Membership Count.

State Aid Membership Count



Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Arvon Township School District.

ARVON TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 396,606
Accounts receivable	1,993
Prepaid expenses	<u>564</u>
TOTAL CURRENT ASSETS	<u>399,163</u>
NONCURRENT ASSETS:	
Capital assets	196,200
Less: accumulated depreciation	<u>(35,241)</u>
TOTAL NONCURRENT ASSETS	<u>160,959</u>
TOTAL ASSETS	<u>\$ 560,122</u>
LIABILITIES:	
Accounts payable	\$ 5,611
Accrued expenses	<u>9,094</u>
TOTAL LIABILITIES	<u>14,705</u>
NET ASSETS	
Invested in capital assets, net of related debt	160,959
Unreserved	<u>384,458</u>
TOTAL NET ASSETS	<u>545,417</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 560,122</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
<u>FUNCTIONS/PROGRAMS</u>		<u>Services</u>	<u>Grants and</u>	<u>Net (Expense)</u>
			<u>Contributions</u>	<u>Revenue and</u>
				<u>Changes in Net</u>
				<u>Assets</u>
Government Activities:				
Instruction and instructional support	\$ 187,499	\$ -	\$ 49,482	\$ (138,017)
Support services	131,234	-	-	(131,234)
Community services	259	-	-	(259)
School service	13,009	2,002	4,860	(6,147)
Total Governmental Activities	<u>\$ 332,001</u>	<u>\$ 2,002</u>	<u>\$ 54,342</u>	<u>(275,657)</u>
General Revenues:				
Property taxes - general operations				279,396
State school aid - unrestricted				2,384
Interest and investment earnings				9,991
Other				13,382
Transfers				204
Total general revenues				<u>305,357</u>
Change in Net Assets				29,700
Net Assets - Beginning				<u>515,717</u>
Net Assets - Ending				<u>\$ 545,417</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2007

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 396,419	\$ 187	\$ 396,606
Accounts receivable	1,993	-	1,993
Prepaid expense	564	-	564
TOTAL ASSETS	<u>\$ 398,976</u>	<u>\$ 187</u>	<u>\$ 399,163</u>
LIABILITIES:			
Accounts payable	\$ 5,611	\$ -	\$ 5,611
Accrued expenses	9,094	-	9,094
TOTAL LIABILITIES	<u>14,705</u>	<u>-</u>	<u>14,705</u>
FUND BALANCES:			
Unreserved	384,271	187	384,458
TOTAL FUND BALANCES	<u>384,271</u>	<u>187</u>	<u>384,458</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 398,976</u>	<u>\$ 187</u>	<u>399,163</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>160,959</u>
Net assets of governmental activities	<u>\$ 545,417</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Totals
Revenues			
Local sources	\$ 302,769	\$ 2,002	\$ 304,771
State sources	2,384	56	2,440
Federal sources	50,025	4,804	54,829
Total revenues	<u>355,178</u>	<u>6,862</u>	<u>362,040</u>
Expenditures			
Instruction	178,003	-	178,003
Supporting services	140,125	-	140,125
Community services	259	-	259
School service	-	13,009	13,009
Total expenditures	<u>318,387</u>	<u>13,009</u>	<u>331,396</u>
Excess (deficiency) of revenue over expenditures	36,791	(6,147)	30,644
Other Financing Sources (Uses)			
Operating transfers in	-	5,699	5,699
Operating transfers out	(5,699)	-	(5,699)
Other outgoing transfers	(339)	-	(339)
Total other financing sources (uses)	<u>(6,038)</u>	<u>5,699</u>	<u>(339)</u>
Net Change in Fund Balance	30,753	(448)	<u>30,305</u>
Fund Balances - Beginning of year	<u>353,518</u>	<u>635</u>	
Fund Balances - End of Year	<u>\$ 384,271</u>	<u>\$ 187</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful activities, these costs are capitalized and allocated over their estimated useful lives as depreciation (605)

Change in net assets of governmental activities \$ 29,700

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments	\$ 450
TOTAL ASSETS	<u>\$ 450</u>
 LIABILITIES	
Gift fund	\$ 450
TOTAL LIABILITIES	<u>\$ 450</u>

The accompanying notes to financial statements are an integral part of this statement.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Arvon Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY

Arvon Township Schools (the "District") is governed by the Arvon Township School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal manners. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term receivables as well as long-term debt and obligations. The District's net assets are reported in two parts – invested in capital assets, net of related debt and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does not allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental fund:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service.

Fiduciary Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities). Fiduciary funds are not included in the government-wide statements.

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, federal aid, and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Other Accounting Policies

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

Michigan law authorizes the District to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes levied by the District are collected by Baraga County and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund - Non-homestead	13.00

Receivables and Payables

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory

The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

NOTE C - CASH

At year-end, the School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds
Cash and cash equivalents	\$ 396,606	\$ 450

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$112,515 of the District's bank balance of \$412,696 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/06	Additions	Deletions	Balance 06/30/07
Land	\$ 1	\$ 0	\$ 0	\$ 1
Fixed assets being depreciated:				
Building and additions	3,775	3,389	0	7,164
Improvements other than building	146,393	0	0	146,393
Equipment and furniture	36,492	6,150	0	42,642
Subtotal	186,660	\$ 9,539	\$ 0	196,199
Accumulated depreciation:				
Building and additions	3,775	0	0	3,775
Improvements other than building	6,906	4,035	0	10,941
Equipment and furniture	14,416	6,109	0	20,525
Subtotal	25,097	\$ 10,144	\$ 0	35,241
Net capital assets being depreciated	161,563			160,958
Net capital assets	\$ 161,564			\$ 160,959

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE D - FIXED ASSETS (Continued)

Depreciation expense in the amount of \$10,144 was charged to instruction and instructional support for the District under Governmental Activities.

NOTE E - INTER-FUND TRANSFERS

The amounts of inter-fund transfers as of June 30, 2007 are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
School Service	<u>\$ 5,699</u>	General	<u>\$ 5,699</u>

NOTE F - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or after attaining age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 16.34% of covered compensation to the Plan through September 30, 2006 and 17.74% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2007 was \$20,200 which consisted of \$17,108 from the District and \$3,092 from employees electing the MIP option. These represent approximately 16.43% and 2.97% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2007 was approximately \$104,072. The District's total payroll was approximately \$104,109.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers.

The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE F - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

As of September 30, 2006 for the MPSERS as a whole, the actuarial accrued liability was \$48.2 billion. The pension plan net assets were \$43 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 89%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2007 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2006 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employees. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

NOTE G - STATE FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 13 mills for non-homestead property taxes. Based on the foundation grant approach, the District is out of formula due to local support. Therefore, they receive no state aid.

2006-07 Foundation		\$	8,321.00
Less Local Support:			
Non-Homestead Tax Value	\$	21,492,429	
Multiplied by mills		13	
Total Local Support		300,894	
Divided by General Education K-12 membership		12.75	
Calculated Local Support			(23,599.53)
Out of Formula		\$	<u>(15,278.53)</u>

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE H - RECONCILIATION OF GRANT AUDITOR REPORT TO REPORTED FEDERAL REVENUES

The amounts reported as cumulative payments on the Grant Auditor Report prepared by the State of Michigan, reconcile with the federal revenue on the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances as follows:

Total cumulative payments	\$ 46,973
Prior year grant funds	(18,528)
School Food Services grants	1,436
REAP Grant	21,037
Medicaid Outreach	543
Food Commodities	3,368
Total Federal Financial Assistance	<u>\$ 54,829</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2007 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE I - CONTINGENT LIABILITIES

Risk Pool

Arvon Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Arvon Township School District joined together with other school districts currently operating a common risk management and insurance program. Arvon Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Arvon Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments. The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2007, which can be obtained through the school district.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 299,339	\$ 302,787	\$ 302,769	\$ (18)
State sources	-	-	2,384	2,384
Federal sources	46,513	49,934	50,025	91
TOTAL REVENUE	345,852	352,721	355,178	2,457
EXPENDITURES:				
Instruction	183,250	178,190	178,003	187
Supporting services	134,493	140,867	140,125	742
Community services	-	300	259	41
TOTAL EXPENDITURES	317,743	319,357	318,387	970
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	28,109	33,364	36,791	3,427
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(5,706)	(5,699)	(5,699)	-
Other outgoing transfers	(200)	(339)	(339)	-
Total other financing sources (uses)	(5,906)	(6,038)	(6,038)	-
NET CHANGE IN FUND BALANCE	\$ 22,203	\$ 27,326	30,753	\$ 3,427
FUND BALANCE - BEGINNING OF YEAR			353,518	
FUND BALANCE - END OF YEAR			\$ 384,271	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Years Ended June 30, 2007 and 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2006</u>
REVENUES:				
Local sources:				
Taxes	\$ 279,396	\$ 279,396	\$ -	\$ 276,777
Other local sources:				
Investment revenue	10,009	9,991	(18)	7,041
Miscellaneous	13,382	13,382	-	16,436
Total other local sources	23,391	23,373	(18)	23,477
Total local sources	302,787	302,769	(18)	300,254
State sources	-	2,384	2,384	-
Federal sources:				
REAP	20,946	21,037	91	19,728
Title I	24,849	24,849	-	15,325
Title V	95	95	-	136
Class size reduction - Title IIA	3,501	3,501	-	3,067
Medicaid outreach	543	543	-	-
Total federal sources	49,934	50,025	91	38,256
TOTAL REVENUES	352,721	355,178	2,457	338,510
EXPENDITURES:				
Instruction:				
Basic program:				
Elementary School	132,395	132,116	279	130,549
Added needs:				
Compensatory education	45,795	45,887	(92)	38,257
Total instruction	178,190	178,003	187	168,806
Supporting Services:				
Improvement of instruction	3,596	3,596	-	-
Library	1,000	1,000	-	1,014
Board of education	12,132	11,964	168	11,656
Business-fiscal services	11,465	11,464	1	11,331
Operation and maintenance	38,953	38,380	573	51,740
Pupil transportation	73,721	73,721	-	68,541
Total supporting services	140,867	140,125	742	144,282
Community services	300	259	41	-
TOTAL EXPENDITURES	319,357	318,387	970	313,088

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Years Ended June 30, 2007 and 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2006</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>33,364</u>	<u>36,791</u>	<u>3,427</u>	<u>25,422</u>
OTHER FINANCING SOURCES (USES):				
Operating transfer out	(5,699)	(5,699)	-	(5,711)
Other outgoing transfers	<u>(339)</u>	<u>(339)</u>	<u>-</u>	<u>(260)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,038)</u>	<u>(6,038)</u>	<u>-</u>	<u>(5,971)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 27,326</u>	30,753	<u>\$ 3,427</u>	19,451
FUND BALANCE, BEGINNING OF YEAR		<u>353,518</u>		<u>334,067</u>
FUND BALANCE, END OF YEAR		<u>\$ 384,271</u>		<u>\$ 353,518</u>

ARVON TOWNSHIP SCHOOL DISTRICT
SCHOOL SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2007

	<u>BUDGET</u>	<u>2007</u>	<u>VARIANCE</u>	<u>2006</u>
REVENUES:				
Local sources:				
Food sales	\$ 712	\$ 712	\$ -	\$ 946
Miscellaneous	1,290	1,290	-	400
Total local sources	2,002	2,002	-	1,346
State sources	56	56	-	41
Federal sources:				
School lunch program	4,804	4,804	-	2,976
TOTAL REVENUES	6,862	6,862	-	4,363
EXPENDITURES:				
Purchases	13,009	13,009	-	10,040
TOTAL EXPENDITURES	13,009	13,009	-	10,040
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,147)	(6,147)	-	(5,677)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	5,699	5,699	-	5,711
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (448)	(448)	\$ -	(34)
FUND BALANCE, BEGINNING OF YEAR		635		601
FUND BALANCE, END OF YEAR		\$ 187		\$ 635

ARVON TOWNSHIP SCHOOL DISTRICT
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
June 30, 2007

	Balance July 1, 2006	Receipts	Disbursements	Balance June 30, 2007
ASSETS:				
Cash	\$ 375	\$ 237	\$ 162	\$ 450
LIABILITIES:				
Due to gift fund	\$ 375	\$ 237	\$ 162	\$ 450
TOTAL LIABILITIES	\$ 375	\$ 237	\$ 162	\$ 450



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Arvon Township School District
Skanee, Michigan

In planning and performing our audit of the financial statements of the Arvon Township School District for the year ended June 30, 2007, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

Accounting Policies and Procedures Manual

We believe it would be beneficial to formulate a complete accounting policies and procedures manual which would document the flow of financial information and set guidelines as to the responsibilities and time lines for the school.

Documentation of Board Proceedings

The opening and closing of bank accounts should be documented in the board minutes as they occur.

It has been a pleasure to provide audit services to the Arvon Township School District. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 15, 2007